

## Message Text

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INFO OCT-01 ISO-00 EURE-00 FEAE-00 L-03 H-02 PA-01 PRS-01

AID-05 CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00

USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04

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FM AMEMBASSY ATHENS

TO SECSTATE WASHDC PRIORITY 1211

C O N F I D E N T I A L SECTION 1 OF 2 ATHENS 8650

E.O. 11652: GDS

TAGS: EAID EFIN GR

SUBJECT: ECONOMIC ASSISTANCE TO GREECE

REF: ATHENS 8393

1. INTRODUCTION AND SUMMARY THIS MESSAGE PRESENTS IN BROAD OUTLINES THE FINDINGS OF THE ECONOMIC EXPERTS' MISSION WHICH, TOGETHER WITH ECONOMIC COUNSELOR AND EMBASSY ECONOMIC OFFICER, HAS JUST COMPLETED SEVERAL DAYS OF MEETINGS WITH OFFICIALS OF THE BANK OF GREECE, COORDINATION MINISTRY, AND THE CENTER OF PLANNING AND ECONOMIC RESEARCH (KEPE). DETAILED STATISTICAL/ ANALYTICAL DATA WILL BE FURTHER DEVELOPED ON TEAM'S RETURN TO WASHINGTON.

2. THE MEDIUM-TERM (TWO TO THREE YEAR) BALANCE OF PAYMENTS PROBLEM WHICH WORRIES GOG POLICYMAKERS STEMS FROM THE FACT THAT EVEN MODERATE PROJECTED GROWTH RATES FOR IMPORTS, BASED ON REVIVAL OF ECONOMY, INTERNATIONAL PRICE RISES, AND REQUIRED DEFENSE IMPORT, IMPLY GROWING TRADE DEFICITS. EVEN WITH PROJECTED HIGHER INVISIBLE RECEIPTS AND LARGER PERCENTAGE GAINS IN EXPORTS THAT IMPORTS CURRENT ACCOUNT EARNINGS ARE NOT EXPECTED TO KEEP PACE WITH THE VOLUME OF IMPORTS REQUIRED TO SUSTAIN PLANNED

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REAL GNP GROWTH OF FOUR PERCENT OF 1976 AND 5 1/2 PERCENT

IN 1977, WHICH GOG BELIEVES IS NECESSARY FOR POLITICAL/SOCIAL STABILITY. END SUMMARY.

3. 1975 GNP - IN CY 1975, FEARFUL THAT REFLATION WOULD PRECIPITATE CONTINUED UNACCEPTABLE INCREASES IN THE PRICE LEVEL (1974 GNP DEFLATOR WAS 29 PCT) AND A POSSIBLE DRAIN ON FOREX RESERVES (WHICH STOOD AT BARELY \$900 MILLION, OR TWO MONTHS' IMPITS, AS OF 12/31/74), GOVERNMENT FELT CONSTRAINED TO FOLLOW ONLY MILDLY EXPANSIONARY FISCAL AND MONETARY POLICY. SLIGHT INCREASE IN AGRICULTURAL OUTPUT (WHICH HAS EXPANDED BY 12 PCT IN 1974), TOGETHER WITH SOME RECOVERY IN MANUFACTURING/ CONSTRUCTION, IS EXPECTED TO RESULT IN SMALL GROWTH OF GNP -- POSSIBLE TWO PERCENT--COMPARED WO TWO PERCENT DECLINE IN 1974. GOVERNMENT CONSUMPTION OUTLAYS--INCLUDING EDUCATION, HEALTH AND OTHER SOCIAL EXPENDITURES--ARE NOW ESTIMATED TO RISE BY 16 PERCENT THIS YEAR.

4. 1975 BALANCE OF PAYMENTS - EXPORTS ARE NOW ESTIMATED TO GROW BY 16 PERCENT, OF WHICH TWO-THIRDS IS ATTRIBUTABLE TO PRICE AND ONE-THIRD TO VOLUME. THE FLOATING DRACHMA HAS MEANT DE FACTO DEVALUATION OF BETWEEN 5 AND 15 PERCENT (DEPENDING ON THE FOREING CURRENCY); THIS HAS MAINTAINED OR IMPROVED GREECE'S COMPETITIVE EXPORT POSITION, BUT UNEVEN GROWTH IN WESTERN EUROPE HAS NEVERTHELESS HELD EXPORT GROWTH SOMEWHAT BELOW THE ORIGINALLY FORECAST 20 PERCENT. INVISIBLE EARNINGS WILL RISE SOMEWHAT (12 PERCENT), PACED BY AN ANTICIPATED 50 PERCENT GROWTH IN TOURIST RECEIPTS; SHIPPING REMAINS A QUESTIONMARK (PROJECTED TO FALL THREE PRECENT), WHILE EMIGRANT REMITTANCES ARE PROJECTED TO CONTINUE AT HIGH LEVELS. IMPORTS ARE PROJECTED TO RISE BY EIGHT PERCENT--BUT THIS MEANS SMALLER VOLUME THAN IN 1974. IMPORTS INCLUDE SIGNIFICANT DEFENSE ITEM COMPONENT. RESULT OF ALL OF ABOVE FACTORS IS PROSPECTIVE INCREASE IN TRADE DEFICIT TO RECORD THREE BILLION DOLLARS (VERSUS \$2.86 BILLION IN 1974) AND CURRENT ACCOUNT DEFICIT TO SOMETHING OVER \$1.1 BILLION (\$1.2 BILLION IN 1974).

5. LARGE PUBLIC AND PRIVATE FOREIGN BORROWINGS DURING 1970-74, WITH HIGHER RATES OF INTEREST, HAS LED TO STEADILY GROWING AMORTIZATION AND INTEREST PAYMENTS (FORMER NOW AMOUNTS TO OVER \$300 MILLION, CONFIDENTIAL

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AND LATTER IS \$230 MILLION). PRIVATE CAPITAL INFLOW AND SUPPLIER CREDITS (LATTER EXPECTED TO RISE BY ABOUT \$2200 MILLION IN 1974, \$100 MILLION HIGHER THAN IN 1974) ARE EXPECTED TO FINANCE ABOUT HALF OF THE TOTAL BALANCE OF PAYMENTS GAP OF \$1.4 BILLION. THIS LEAVES A SIGNIFICANT REQUIREMENT TO OFFICIAL BORROWING: GOVERNMENT, PUBLIC ENTITIES, AND BANK OF GREECE HAVE (BY OCTOBER 1975) ALREADY BORROWED \$490 MILLION, AND ARE EXPECTED TO DRAW DOWN (FROM CREDIT LYONNAIS CONSORTIUM)

ANOTHER \$200 MILLION BY DECEMBER 31ST.

6. 1976 GNP - GOVERNMENT INTENDS TO FOLLOW MILDLY REFLATIONARY POLICY AND HOPES TO SEE GNP RISE BY FOUR PERCENT. IN ORDER ACHIEVE GREATER SOCIAL EQUITY, OUTLAYS ON EDUCATION, HEALTH, AND SOCIAL SERVICES WILL BE FURTHER INCREASED. BUT DEFENSE BURDEN WILL REMAIN AT HIGH LEVEL, WITH IMPLICATIONS FOR BLANCE OF PAYMENTS.

7. 1976 BLANCE OF PAYMENTS - GREEK EXPERTS PROJECT SMALL RISE IN IMPORT BILL IS FORECAST UP 14 PERCENT. ON ASSUMPTION THAT GREEK COMPETITIVE EXPORT POSITION REMAINS RELATIVELY UNCHANGED (I.E., RELFATION IN EUROPE RAISING PRICES AND WAGES THERE AT ABOUT THE SAME RATE OF INCREASE AS IN GREECE), AND THAT EUROPENA DEMAND FOR GREEK EXPORTS RISES, THE VALUE OF EXPORTS IS PROJECTED TO INCREASE BY 17 PERCENT. NET TOURIST RECEIPTS ARE PROJECTED TO RISE BY 30 PERCENT, OTHER INVISIBLES EARNINGS TO INCREASE MODESTLY. INTEREST PAYMENTS WILL BE HIGHER DUE TO RISING LEVEL OF EXTERNAL DEBT. EVEN ON THESE GENERALLY FAVORABLE ASSUMPTIONS, CURRENT ACCOUNT DEFICIT WILL PROBABLY EXCEED CY 1975 LEVEL.

8. AMORTIZATION WILL BE SOMEWHAT HIGHER THAN IN CY 1975, BUT FULL IMPACT OF FOREIGN BORROWING DURING LAST FOUR YEARS WILL BE FELT ONLY BY CY 1977-78 IN VIEW OF LONG GRACE PERIODS OF EARLIER BORROWING AND SHORT GRACE PERIODS ON MORE RECENT BORROWINGS.

9. GREEK EXPERTS ASSUME THAT PRIVATE CAPITAL INFLOW (INCLUDING SUPPLIERS CREDITS) WILL INCREASE FURTHER FROM 1975 LEVEL, ALBEIT AT SLIGHTLY LOWER GROWTH RATE (16 PERCENT VERSUS 29 PERCENT). GOVERNMENT WILL THUS CONTINUE TO NEED TO TURN TO EUROPEAN MARKET AND TO IMF FOR SIGNIFICANT VOLUME  
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OF OFFICIAL LOANS--NO GUESSES AS TO SPECIFIC SOURCE WERE OFFERED BY GREEK EXPERTS--IN ORDER TO MAINTAIN FOREX HOLDINGS AT PRESENT LEVEL.

10. FUTURE - THE GOG HAS MEDIUM-TERM PLANS FOR RESOLVING CURRENT BALANCE OF PAYMENTS PROBLEMS. THE NEW DRAFT FIVE-YEAR PLAN (1976-80) PROJECTS GNP GROWTH RATE RISE TO 5 1/2 PERCENT IN 1977 AND TO SEVEN PERCENT IN SUCCEEDING YEARS. IT EMPHASIZES STRUCTURAL IMPROVEMENTS TO EXPAND EXPORT BAPABILITY, DEVELOPMENT OF NEW FOREIGN MARKETS (ESPECIALLY THE MIDDLE EAST), INCREASING THE VALUE-ADDED OF GREEK MANUFACTURING/MINING EXPORTS, STIMULATING EXPLOITATION OF MINERALS, AND ENCOURAGEMENT OF IMPORT SUBSTITUTION. PARTICU-

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C O N F I D E N T I A L SECTION 2 OF 2 ATHENS 8650

LARLY SIGNIFICANT ARE PLANS TO REDUCE DEPENDENCE ON IMPORTED OIL--WHICH CURRENTLY ACCOUNTS FOR \$800-900 MILLION IN GREECE'S IMPORT BILL--BY FOLLOWING UP ON PROMISING OFFSHORE DISCOVERIES IN NORTHERN GREECE AND BY MORE RAPID AND SYSTEMATIC EXPLOITATION OF LOCAL LIGNITE DEPOSITS. THE NEW BANKING CONSORTIUM IS ANOTHER ELEMENT IN THE GOVERNMENT'S OBJECTIVE OF STIMULATING PRIVATE INVESTMENT AND ATTRACTING FOREIGN CAPITAL TO IMPROVE GREECE'S INTERNATIONAL COMPETITIVE POSITION. THE BASIC POLICY IS GRADUALLY TO RESTRUCTURE THE ECONOMY, WHILE RELYING ON PRIVATE CAPITAL INFLOWS AND OFFICIAL BORROWING TO BLANCE THE CURRENT ACCOUNT DEFICIT IN THE INTERIM.

11. FOR NEAR FUTURE (I.E., 1976-77), THE CONTINUED UNCERTAIN WORLD ECONOMIC SITUATION, AND THE LIKELIHOOD THAT FOREIGN INVESTORS WILL ASSESS THE STABILITY OF DEMOCRATIC GOVERNMENT IN GREECE AGAINST THE BACKGROUND OF CONTINUING GREEK-TURKISH TENSIONS, MEANS THAT GREECE CANNOT EXPECT TO RELY SOLELY ON PRIVATE CAPITAL MARKS. THIS REASONING EXPLAINS GOG'S CURRENT SEARCH FOR OFFICIAL BILATERAL AND MULTILATERAL BLANCE OF PAYMENTS SUPPORT. THE HIGH EXTERNAL FINANCING REQUIREMENT UNDERSCORES THE VULNERABILITY OF GREECE'S BALANCE OF PAYMENTS. THIS VULNERABILITY, AND THE RESULTANT IMPLACTIONS FOR DOMESTIC SOCIAL/ECONOMIC PROGRAMS CONSIDERED NECESSARY TO MAINTAIN STABILITY, IS A SOURCE OF  
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CONTINUING CONCERN TO TOP GOG POLICY MAKERS AND A FACTOR  
AFFECTING GOVERNMENT DECISIONS.  
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## Message Attributes

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